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UNITED STATES DISTRICT COURT SOUTHERN DISTRICT OF CALIFORNIA

SOUTHERN CALIFORNIA GAS COMPANY, a California corporation,

Plaintiff,

VS.

SYNTELLECT, INC., a Delaware corporation,

Defendant.

CASE NO. 08-CV-941-BEN (MDD)

ORDER GRANTING MOTION FOR PARTIAL SUMMARY JUDGMENT

[Docket No. 172]

Before this Court is a Motion For Partial Summary Judgment filed by Plaintiff Southern California Gas Company (SoCal Gas). (Docket No. 172). For the reasons stated below, the Motion is **GRANTED**.

BACKGROUND

This case arises out of the SoCal Gas's purchase of an automated interactive system for handling incoming telephone calls made by Syntellect, Inc. (Syntellect). The Syntellect System is one component in SoCal Gas's system for handling customer phone calls. Among other functions, the System allowed SoCal Gas to tie an incoming call to customer information from SoCal Gas's computers. For instance, the System could obtain account records from a computer database based on the incoming phone number. Syntellect's custom application programs provided decision trees for handling calls based on the caller's inputs, enabling call flows that would allow the customer to

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either complete their task in the automated system, or speak to a live operator.

The purchase agreement for the Syntellect System contained a broad indemnity provision:

[Syntellect] shall indemnify, defend and hold [SoCal Gas] . . . harmless from and against any and all claims, actions, suits, proceedings, losses, liabilities, penalties, damages, costs or expenses (including attorney's fees and disbursements) of any kind whatsoever arising from (1) actual or alleged infringement or misappropriation by [Syntellect] or any subcontractor of any patent, copyright, trade secret, trademark, service mark, trade name, or other intellectual property right in connection with the System, including without limitation, any deliverable (2) [Syntellect's] violation of any third party license to use intellectual property in connection with the System, including, without limitation, any deliverable.

(Purchase Agreement, Wilson Decl. Ex. I ¶ 20.2).

The "System" includes the Vista Interactive Voice Response System, custom application programs developed by Syntellect specifically to SoCal Gas's application specifications, and all specifications and requirements included in the Request for Proposal. (Mem. Disp. at 3).

SoCal Gas was sued by a third party, Ronald A. Katz Technology Licensing, L.P. (Katz), which alleged that SoCal Gas's system violated patents held by Katz. (Katz Complaint, Wilson Decl. Ex. C). SoCal Gas asked Syntellect to defend the suit, but Syntellect refused to defend or indemnify SoCal Gas. SoCal Gas reached a settlement with Katz by entering a licensing agreement granting SoCal Gas a license to use the patents, and releasing them from liability for past use. (Settlement Agreement, Wilson Decl. Ex. D; Licensing Agreement, Wilson Decl. Ex. E). SoCal Gas agreed to pay a licensing fee to Katz based upon past calls that had used the automated system. There were two categories of calls for which Katz demanded payment and which had actually occurred in the SoCal Gas system: 1) calls which were resolved entirely in the automated system, and 2) calls that were in the automated system, then transferred to a live customer service representative. (Katz Letter, Wilson Decl. Ex. F). For each minute of the *entire duration* of both categories of calls, SoCal Gas agreed to pay \$0.011. (Id.; Lic. Ag. ¶ 1.12; Battles Decl. ¶ 25).

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SoCal Gas filed the instant lawsuit to seek indemnification from Syntellect, including the entire licensing fee paid in the settlement, attorney's fees, and interest. (Compl.) On March 28, 2011, this Court granted SoCal Gas's motion for partial summary adjudication on the question of whether Syntellect breached the indemnity provision by failing to defend and indemnify SoCal Gas in the Katz infringement case. (Docket No. 79). This Court also granted a motion *in limine* excluding evidence related to the allocation of damages. (Docket No. 149).

Syntellect appealed to the Ninth Circuit. In a memorandum disposition, the Ninth Circuit affirmed this Court's grant of summary adjudication on the question of liability. (Mem. Disp. at 4). The Ninth Circuit noted the broad language of the indemnity provision, and that California law interpreted language such as "arising from" to mean that liability will attach if the indemnitor's performance under the contract is "causally related in some manner to the injury for which indemnity is claimed." (Id. at 3 (citing St. Paul Fire and Marine Ins. Co. v. Am. Dynasty Surplus Lines Ins. Co., 101 Cal. App. 4th 1038, 1050 (2d Dist. 2002))). The Court found that each of the "accused services" in the Katz complaint was "enabled by Syntellect's performance of its contractual duties." (Id.) It concluded that the allegations of patent infringement were causally related to Syntellect's provision of the System, and that Syntellect was therefore liable for "damages stemming from utilization of the System." (Id.) The Ninth Circuit also found that SoCal Gas's own liability was reflected in the "presumptively reasonable amount of the settlement." (Id. at 5).

However, the Ninth Circuit found that SoCal Gas must still demonstrate that the entire liability should be allocated to Syntellect. When there is a dispute over allocation, the plaintiff is required to prove the reasonableness of the proposed allocation by ordinary means, and a district court may not exclude all evidence relevant to the allocation of damages. (*Id.*) As this Court excluded such evidence, the case was remanded for this Court to undertake this inquiry "in the first instance." (*Id.* at 6).

The Ninth Circuit clearly stated that it was not holding that apportionment was

required, or that Syntellect could not be held responsible for the entire amount. (*Id.*) Rather, this Court must consider evidence to determine if apportionment is necessary. To determine if apportionment is required, this Court is direct to consider the "nature of the Katz claims as they apply to the indemnity provision and to other potentially liable parties." (*Id.*) The Ninth Circuit stated that when an indemnity obligation is "limited under the contract, an allocation of liability between culpable parties is appropriate." (*Id.* at 5). Apportionment is appropriate where "some portion of the liability for the alleged infringement is not embraced by Syntellect's indemnity obligation." (*Id.* at 6)

LEGAL STANDARD

Summary judgment is appropriate when "there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." FED. R. CIV. P. 56(a); see also Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 247-48 (1986). In considering a summary judgment motion, a court examines the evidence in the light most favorable to the non-moving party. *United States v. Diebold, Inc.*, 369 U.S. 654, 655 (1962).

A moving party bears the initial burden of showing there are no genuine issues of material fact. *Travelers Indem. Co. v. Arena Grp. 2000, L.P.*, No. 05-cv-1435, 2007 WL 4170421, at *5 (S.D. Cal. Nov. 20, 2007) (citing *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986)). It can do so by negating an essential element of the non-moving party's case, or by showing that the non-moving party failed to make a showing sufficient to establish an element essential to that party's case, and on which the party will bear the burden of proof at trial. *Id.* The burden then shifts to the non-moving party to show that there is a genuine issue for trial. *Id.*

The moving party must support their assertion that a fact is not subject to genuine dispute by either a) citing to materials in the record, such as depositions, documents, electronically stored information, affidavits or declarations, stipulations, admissions, interrogatory answers, or other materials; or b) showing that the materials

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cited do not establish the absence or presence of a genuine dispute, or that an adverse party cannot produce admissible evidence to support the fact. FED. R. CIV. P. 56(c)(1).

On a motion for summary judgment, a party does not necessarily have to produce evidence in a form that would be admissible at trial, as long as the requirements of Federal Rule of Civil Procedure 56 are met. *Fraser v. Goodale*, 342 F.3d 1032, 1036-37 (9th Cir. 2003) (citation omitted). Affidavits or declarations used to support or oppose a motion must be made on personal knowledge, set out facts that would be admissible in evidence, and show that the affiant or declarant is competent to testify on the matters stated. FED. R. CIV. P. 56(c)(4).

"Only disputes over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment. Factual disputes that are irrelevant or unnecessary will not be counted." *Anderson*, 477 U.S. at 248. As a general rule, the "mere existence of a scintilla of evidence" will be insufficient to raise a genuine issue of material fact; there must be evidence on which the jury could reasonably find for the non-moving party. *Id.* at 252.

DISCUSSION

As directed by the Ninth Circuit, apportionment is appropriate when the indemnity obligation is limited and "some portion of the liability for the alleged infringement is not embraced by Syntellect's indemnity obligation." (Mem. Disp. at 5, 6). The critical question is thus whether the scope of the liability provision, as determined by this Court and the Ninth Circuit, covers the entire amount of the settlement, or whether some portion of the settlement amount is not covered by the indemnity obligation and allocation is required.

The parties agree that Syntellect is liable for "damages stemming from utilization of the system." SoCal Gas contends that the undisputed facts and legal conclusions demonstrate that no apportionment of liability is required. It argues that the entire amount stems from the utilization of the System, and is covered by the indemnity obligation as interpreted by the Court.

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Syntellect contends that part of the settlement amount exceeds the scope of the indemnity obligation. Specifically, it claims that 1) the indemnity obligation does not cover damages paid for portions of calls not conducted within the System, and 2) the indemnity obligation does not cover damages to the extent that other components of the automated call system are necessary to provide the allegedly infringing services. It argues that these categories of damages do not "[stem] from the utilization of the System." (Opp. at 1-2).

The arguments between the parties are essentially based on the interpretation of the Ninth Circuit's language stating Syntellect is liable for damages "stemming from the utilization of the Syntellect system." (Mem. Disp. at 3). It is therefore necessary for this Court to examine the indemnity provision to determine what kind of relationship the damages must have to the utilization of the System, and how the obligation is affected by the presence of other parties.

A. The Necessary Relationship Exists Between the Use of the Syntellect System and Damages Paid for Minutes Spent Waiting for an Operator or Speaking to an Operator

Syntellect argues that it should not be required to pay the portion of the licensing fee attributable to the 63% of minutes where a caller was either waiting for a live operator, or speaking to a live operator. It argues that apportionment is appropriate because such damages do not stem from the utilization of Syntellect's System. SoCal Gas contends that such minutes do stem from the utilization of the System. The factual relationship between the use of the System and the minutes spent waiting for an operator or talking to an operator is sufficient for damages for those minutes to fall within the indemnity obligation.

Syntellect essentially admitted that each of the accused services from the Katz complaint was enabled by its performance of its contractual duties. (Mem. Disp. at 3). Examination of the Katz complaint confirms that all claims against SoCal Gas were based on services enabled by Syntellect's system, including the partially automated

-*i* calls. It stated that Katz's inventions were "directed to the integration of telephonic systems with computer databases and live operator call centers to provide interactive call processing services." (Katz Compl. ¶ 26). SoCal Gas was accused of using infringing call processing systems to offer automated customer services, "in some instances in connection with operators." (*Id.* ¶ 85). Katz listed accused services, some of which required live operators. (*Id.*) Katz clearly alleged that SoCal Gas violated its patents not only when a caller exclusively operated in the automated system, but when SoCal Gas provided services using the System and live operators.

It is also undisputed that the payment of the licensing fee was for the "sole purpose" of settling the patent infringement lawsuit. (Resp. to Separate Statement of Undisputed Facts No. 2). As SoCal Gas paid the licensing fee to settle the claims, and all claims were based on services enabled by Syntellect's System, then the entire amount of damages was paid to settle claims enabled by the System.

The contract requires Syntellect to indemnify SoCal Gas against "any and all" damages "of any kind whatsoever" arising from actual or alleged infringement of intellectual property rights, including patents, "in connection with the System." Significantly, this language is not requiring Syntellect to pay for damages "arising from" the use of the System, it requires the payment of damages "arising from" allegations of infringement in connection with the System. It is apparent that Katz's claim that the partially automated calls infringed the patent is an allegation of infringement of property rights in connection with the System. The licensing fee arose from that infringement claim. The clear terms of the contract therefore require Syntellect to pay for "any and all" damages arising from that allegation. Nothing in the contract requires a particular unit of damages to itself be traceable to the System.

Even if one were to read the Ninth Circuit's opinion to impose an additional requirement that a particular unit of damages must stem from the utilization of the system, the minutes in question meet this requirement.

The licensing agreement required SoCal Gas to pay for every minute spent

waiting for an operator or speaking to a live operator, if the call spent time in the automated system. If the call did not pass through the system, then no damages would be paid for those minutes. SoCal Gas argues that the damages thus stem from use of the System. SoCal Gas also asserts that it benefits from the use of the Syntellect System even after the customer is no longer actively engaging with the System. For instance, the call is tagged with relevant information, and the System could be used to help properly route a call or give information to a live operator about the call to use during the live portion of the call. (Brooks Dep., Wilson Ex. G, 23:9-24, 25:9-26:3, 26:16-20).

Each minute for which a licensing fee was paid was part of an allegedly infringing service enabled by the System. Syntellect's effort to isolate the minutes spent outside the system is artificial. The damages for minutes spent talking to a live operator or waiting for a live operator during a partly automated call were paid only because the minutes in question were part of an infringing service. The Syntellect System was not merely an incidental presence during those minutes. Its role was not limited to something that the callers passed through, and it was not simply present in the call system while entirely independent acts of alleged infringement took place. The System played an important role in the alleged infringement of patents by providing automation during the call and by allowing SoCal Gas to benefit from the System's ability to tag calls and help access information, even after the customer had left the system. Syntellect cannot avoid liability because the customer was not actively engaging with the System for part of the service.

Apportionment of the waiting time and live operator minutes is appropriate if they are "not embraced by Syntellect's indemnity provision." As these minutes clearly are embraced by the provision, no apportionment is required on that basis.

B. Syntellect Cannot Allocate Liability to Other Components

Syntellect argues that liability must be apportioned between it and other components of the call system. It argues that because other components were required,

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not all of the damages stem from the use of the System.

The Ninth Circuit expressly directed this Court to apportion damages if liability was *not* embraced by the indemnity provision. The text of the provision requires Syntellect to pay "any and all claims, actions, suits, proceedings, losses, liabilities, penalties, damages, costs or expenses of any kind whatsoever" arising from patent infringement allegations in connection with the System. (Purchase Ag. ¶ 20.2). This language is expansive. It makes no provision for allocation and does not purport to limit Syntellect to damages for which Syntellect is at fault. Instead, it clearly envisions that damages paid for patent allegations in connection with the Syntellect system will "all" be paid by Syntellect. Neither the text, nor the Ninth Circuit's opinion requires that the damages stem solely or primarily from the utilization of the system. Syntellect is essentially arguing that the multiple components are causally related to the damages, but the contract provides no basis for Syntellect to avoid paying the entire amount. The entire settlement amount was used to settle infringement claims in connection with the System, and Syntellect bound itself to pay "any and all" such damages.

California precedent makes clear that where a party promises to pay the damages "arising from" an activity and the party does not impose other limitations on that liability, the indemnitor must pay the full amount, even if another party's actions are casually related, or even primarily to blame for the injury. In interpreting "arising from" in the memorandum disposition, the Ninth Circuit cited to the decision of a California Court of Appeal in St. Paul Fire, 101 Cal. App 4th 1038. (Mem. Disp. at 2-3). The St. Paul Fire court reviewed California precedent in order to determine whether the relationship between the injury and the particular activity was sufficient to fall within an indemnity agreement. See 101 Cal. App. 4th at 1049-54. The Court of Appeal carefully examined and contrasted the situation before it with Fireman's Fund Ins. Cos. v. Atlantic Richfield Co., 94 Cal. App. 4th 842 (5th Dist. 2001), and Acceptance Ins. Co. v. Syufy Enters. Inc., 69 Cal. App. 4th 321 (1st Dist. 1999). In both Fireman's Fund and Syufy, the policy was held to cover the entirety of the

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damages, even though another party was actually responsible for the injury, and efforts to recover from the culpable party were denied. St. Paul Fire quoted Syufy's justification for denying an insurance company's efforts to recover from the building owner responsible for a defective hatch that caused injury. The Syufy court determined that the fact that the defect was attributable to the other party's negligence was "irrelevant, since the policy language does not purport to allocate coverage according to fault." Syufy, 69 Cal. App. 4th at 329 (quoted in St. Paul Fire, 101 Cal. App. 4th at 1051). By contrast, in determining that an indemnity provision did not require the indemnitor to provide coverage, the St. Paul Fire court emphasized that the St. Paul Fire contract had special language limiting its indemnity obligation. 101 Cal. App. 4th at 1052-53.

This Court does note that the factual context of this case is important and that this case does not involve an insurance contract. In *Rossmoor Sanitation, Inc. v. Pylon, Inc.*, 13 Cal. 3d 622, 633 (1975), the California Supreme Court stated that the question of whether an indemnity agreement covers a given case turns primarily on contractual interpretation, and the intent of the parties as expressed in the agreement controls. This analysis involves an inquiry into the circumstances of the damage or injury and the language of contract, and each case will turn on its own facts. *Id.* As this Court said in granting summary judgment on breach of contract liability, Syntellect would be liable under the provision even if SoCal Gas was actively negligent or SoCal Gas was accused of patent infringement for its own acts. (Docket 79 at 9). Given the factual situation at hand, it makes sense that SoCal Gas would contract to protect itself from an infringement risk it could not control and that Syntellect would accept liability for a risk it could control, and this intent is clear from the unambiguous language of the contract. (*Id.*)

Syntellect argues that the Ninth Circuit directed this court to consider the nature of the Katz claims as they apply to the indemnity provision "and to other potentially liable parties." (Opp. at 10 (citing Mem. Disp. at 6)). However, examination of the

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indemnity provision in the first instance demonstrates that the existence of other potentially liable parties is immaterial in determining Syntellect's obligations. The Ninth Circuit held that "[w]here a party's indemnity obligation is limited under the contract, an allocation of liability between culpable parties is appropriate." (Mem. Disp. at 5). Allocation would be necessary if Syntellect's indemnity obligation was limited in such a way that the entire award was not clearly covered. However, this Court has determine that there is no such limitation here. The only relevant limitation found in the contract is that the "claims, actions, suits, proceedings, losses, liabilities penalties, damages, costs or expenses" arise from actual or alleged infringement or misappropriation "in connection with the System." (Purchase Ag. ¶ 20.2). The entire Katz settlement licensing fee fits within that requirement.

This is well-illustrated by the case cited by Syntellect, *Heppler v. J.M. Peters Co.*, 73 Cal. App. 4th 1265 (4th Dist. 1999). As the indemnity provision limited each subcontractor's liability to the performance of its own work, and not that of another subcontractor or Peters, it was necessary to show each allocation was reasonably related to the subcontractor's performance. *Id.* at 1277. The *Heppler* court reviewed California precedent finding that parties had great freedom of action in allocating risk, and could require negligence by the indemnitor as a condition of indemnification, or establish a duty to save the indemnitee even if the indemnitor is not negligent. *Id.* (citations omitted). The court examined the provision at issue and determined that indemnitor fault was necessary based on contractual language and the commercial context. *Id.* at 1278-81. By contrast, Syntellect's indemnity provision is not limited by a requirement of indemnitor fault.

Syntellect also cites to *Peter Culley & Assoc. v. Super. Ct.*, 10 Cal. App. 4th 1484 (1st Dist. 1992). The case requires an indemnitee to show that the liability is covered by the contract, that liability existed, and the extent thereof. *Id.* at 1497. The case required the plaintiff to prove the reasonableness of its allocation by ordinary means. In *Peter Culley*, it was undisputed that Culley was not liable for the entire

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amount, and the case addressed the question of what allocation was reasonable. *Id.* at 1498.

The indemnity obligation at hand makes no effort to allocate damages. Instead Syntellect agreed to indemnify SoCal Gas for "any and all" damages "of any kind whatsoever" arising from infringement claims in connection with the System. As all of the damages paid arose from infringement claims for services enabled by the use of the System, Syntellect must pay them in their entirety.

It is therefore irrelevant whether other components or actions by SoCal Gas were necessary for infringement or contributed to infringement. To the extent facts related to the contributions of other parties are in dispute, they are not material, and they will not defeat summary judgment.

C. The Grant of Summary Judgement is Consistent With the Decision to Remand

Syntellect argues that if these facts were sufficient, the Ninth Circuit would not need to remand the case, and it is therefore inappropriate to read the opinion in that way.

The Ninth Circuit asked this Court to determine the question of allocation "in the first instance." (Mem. Disp. at 6). Although it held that it was improper to exclude evidence regarding allocation, the Ninth Circuit did not rule that this Court could not consider the available evidence and grant summary judgment. To resolve the allocation dispute, this Court needed to examine the scope of liability and determine the extent to which the damages paid all fit within the scope. For instance, it was necessary to determine that the entire licensing fee was paid solely to settle the Katz claims. It was also necessary to determine that the contractual provision did not provide for allocation according to fault. Although the Ninth Circuit affirmed this Court's liability finding, it was still necessary for this Court to determine that this finding meant that all the damages were covered. This Court is able to make the necessary determination based upon the undisputed facts, but it had to examine those facts and reach those conclusions.

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Indeed, it may well have been inappropriate for the Ninth Circuit, once it concluded that this Court had not made any allocation finding, to have done so on its own. The Ninth Circuit lacks the power to make new findings of fact. *Smallfield v. Home Ins. Co. of N.Y.*, 244 F.2d 337, 341 (9th Cir. 1957). Such findings of fact were necessary to determine that allocation was not required in this situation. Remand also allowed Syntellect a chance to present its arguments to ensure there were no important issues that had not been fully presented to the Ninth Circuit.

CONCLUSION

It is SoCal Gas's burden to "prove the reasonableness of its proposed allocation." (Mem. Disp. at 5). SoCal Gas has put forward undisputed facts in its Motion for Summary Judgment. This Court has considered all of the facts proffered to support or rebut SoCal Gas's proposed allocation of damages. The Court determines that each of the Katz claims falls within the indemnity provision, and that all of the damages were paid to resolve those claims. The provision only limits Syntellect's liability inasmuch as any of the damages do not arise from infringement allegations in connection with the System. SoCal Gas has adequately demonstrated that the undisputed facts show that all of the damages are covered by the indemnity provision. As the indemnity provision does not limit its liability in any relevant way with regard to damages paid for the Katz claims, no allocation is required.

Based on the scope of the indemnity provision and the nature of the Katz claims, this Court determines that the entire Katz settlement licensing fee is within the scope of the indemnity provision, and that allocation is not appropriate. SoCal Gas's Motion for Partial Summary Judgement is **GRANTED**.

IT IS SO ORDERED.

Date: January 28, 2014

United States District Judge